IOCWM#1
Nov. 26, 2005

IN THE MATTER OF the *Public Utilities Act,* R.S.N. 1990 Chapter P-47 (the "Act"); and

IN THE MATTER OF a General Rate Application (the "Application") by Newfoundland and Labrador Hydro for approvals of, under Section 70 of the Act, changes in the rates to be charged for the supply of power and energy to Newfoundland Power, Rural Customers and Industrial Customers; and under Section 71 of the Act, changes in the Rules and Regulations applicable to the supply of electricity to Rural customers and;

IN THE MATTER of a complaint from the Town of Labrador City and the Town of Wabush, that the Rates proposed for Labrador West by Newfoundland and Labrador Hydro in its 2003 General Rate Application are discriminatory and;

IN THE MATTER of a hearing by the Public Utilities Board with respect to the appropriate rate calculation methodology for the Labrador interconnected system;

The Iron Ore Company of Canada and Wabush Mines written submission to the Public Utilities Board for the above matter

IRON ORE COMPANY OF CANADA AND WABUSH MINES

Per: Edward M. Hearn, Q.C.
Miller & Hearn
Barristers and Solicitors
P.O. Box 129
Labrador City, NL A2V 2K3

Telephone (709) 944-3666
Telephone (709) 944-5494

Executive Summary

The Labrador iron ore mines should not be charged twice for the electrical distribution system in Labrador West. The mines paid for the original generation, transmission and distribution infrastructure and then gave the town's distribution infrastructures in good condition to NLH for the nominal fee of $1. Creation of a common Labrador interconnected rate spreads the real lower cost of servicing Labrador West customers to Labrador East to create an artificial common rate. A substantial portion of the resulting cost increase for Labrador West customers is ultimately passed on to the mining companies because they are the largest employer. The mines can not afford to bear this cost burden as it is coming at a time when the mining companies are fighting for survival.

Labrador West Mining Overview

The primary industry in Labrador West is iron ore mining. The two companies operating in the area are the Iron Ore Company of Canada (IOC) located in Labrador City and Wabush Mines located in the Town of Wabush. The two mines contribute approximately $324 million directly to the Labrador economy each year through employee salaries, purchases, taxes and community projects. They also provide jobs directly for 1790 people in Labrador West and approximately twice this number of jobs indirectly in services that support the industry.

Both mines extract and concentrate ore in Labrador West and then transport it by rail to Sept-Iles Quebec where it is loaded onto customer's ships. IOC also operates a pellet plant in Labrador City with an annual capacity of 12.5M tonnes. Roughly 40% of the iron ore is shipped to steel mills in North America, another 40% to mills in Europe and the remaining 20% goes to Asian mills.

Electrical Infrastructure Paid by Mines

In the early 1960's, the mines paid for Labrador West's generation, transmission and distribution infrastructure under the Twin Falls Power Corporation (Twinco). In 1974, water was diverted away from the Twin Falls generating station to increase the capacity of the Churchill Falls generating station. As compensation, the Churchill Falls Labrador Corporation Limited (CFLCo.) was required, under Article 8 of the 1961 water power sublease, to enter into a forty year contract to supply electricity to Twinco at a rate equivalent to the Twin Falls generation cost.

In 1985, Wabush Mines gave the Town of Wabush electrical distribution system to Newfoundland Hydro (NLH) for the nominal fee of $1 and then contributed $3.0M towards the upgrade of the system. In 1992, IOC gave the Labrador City electrical distribution system to NLH for the nominal fee of $1 and then contributed $2.5M to upgrade the system. NLH's investment of only $10.0M to upgrade the town's distribution system since taking ownership indicates the distribution assets were turned over in good condition.

Twinco owns the transmission lines from Churchill Falls to Labrador West and does not charge NLH to transmit energy over these lines. As per Article 6 of the 1992

Transmission Contract between NLH, Twinco and IOC, NLH only pays for incremental costs incurred by Twinco in providing such transmission.

Since the mines paid for the electrical infrastructure in Labrador West and these costs were paid by NLH for Labrador East there should be a significant difference in the cost to service each communities. The reason the mines originally paid for the town's electrical distribution infrastructure and other community facilities was to provide an indirect subsidy to attract and retain highly skilled people to the Labrador West area. The mines support NLH raising electricity rates to compensate for an increased cost to service Labrador West; however, creation of a common interconnected rate is merely detrimental spreading of Labrador West's electrical infrastructure subsidy to Labrador East.

Impact of Labrador Interconnect on Mines

Formation of a common Labrador interconnect rate effectively charges the mines twice for the electrical infrastructure. The Labrador West economy is primary based on the performance of the two iron ore mines. Since the mines directly employ 1790 people from the approximately 4200 houses in Labrador West and provide twice as many indirect jobs for people employed by companies supporting the mines and their employees, any town electricity cost increases are also ultimately borne by the mines. For example, the mines may be impacted by higher costs from local suppliers or employee demands to maintain living standards.

The Labrador West iron ore mines are currently fighting for survival and can not afford to bear additional cost pressures. The production of iron ore is an intensively competitive global business. Canadian iron ore producers face major production cost challenges relative to their global competitors and are presently focused on surviving in the current market.

The majority of Canadian iron ore is sold in the global markets of North America, Europe and Asia but the sale price of iron ore is not within the control of Canadian producers. Brazilian producers primarily set the price for sea borne product with European steel makers or by Australian producers with Japanese steel makers. Iron ore pricing is quoted in U.S. dollar terms and, like most commodities, the pricing is cyclical. In U.S. dollars, the price of iron ore has increased in 2003, however in Canadian dollars prices have decreased. In constant Canadian dollar terms iron ore prices have steadily declined at an annualized rate of –1.7% since 1977. Canadian iron ore producers are under extreme pressure to reduce costs and cannot adjust their price to offset any additional costs incurred.

To remain viable Canadian producers must substantially cut current costs. Fortunately, the combination of a high quality product and opportunities to reduce cost make the Labrador West iron ore industry viable in the long run if given the chance to succeed. Additional cost pressures associated with the PUB's plans to implement an interconnected Labrador rate will have a negative impact on the already poor financial performance of the mines and is coming at a time when they can least afford it.

Electricity Consumption Reduction

Energy related expenses are currently 16% of IOC's operating costs and with the recent ratification of the Kyoto protocol, energy conservation and cost management is becoming even more critical. To address these and other energy-related concerns, IOC appointed a full time energy manager in January of 2003 to develop an actionable energy strategy. The first input into this strategy was completion of an energy audit

The objectives of the energy audit were to identify areas of energy cost reduction opportunity, quantify the potential size of those opportunities and to develop a prioritized list of high return on investment projects. Energy conservation workshops were held with 48 senior employees representing all areas of the plant and 137 potential ideas were captured and evaluated for implementation. The electricity cost reduction ideas approved and scheduled for implementation over the next five years should reduce the total load on the Wabush Terminal Station by an estimated 19MW.

Conclusion

The Labrador iron ore mines support electricity rate increases based on higher costs to service the Labrador West communities. However, the proposed interconnected Labrador rate is in effect a policy decision to spread a subsidy paid for by the Labrador West mining companies to Labrador East. The result is the iron ore mines will be charged twice for the electrical distribution system in Labrador West. The mines paid for the initial installation of the distribution system and as the largest local employers may now need to absorb a substantial portion of a price increase based on NLH sharing a subsidy that in reality only lowers the cost to service Labrador West.